PI FINANCIAL
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AG TECHNICALS & TRENDS

February 2020 Edition

I've been getting a lot of questions lately about how the coronavirus is impacting the overall markets. The outbreak has killed 362 people in mainland China with over 17,000 cases confirmed and more than 180 cases in 25 countries spanning North America, Europe Asia and the Middle East. It is no surprise the World Health Organization has now declared a global health emergency.

What commodity markets have been impacted the most?

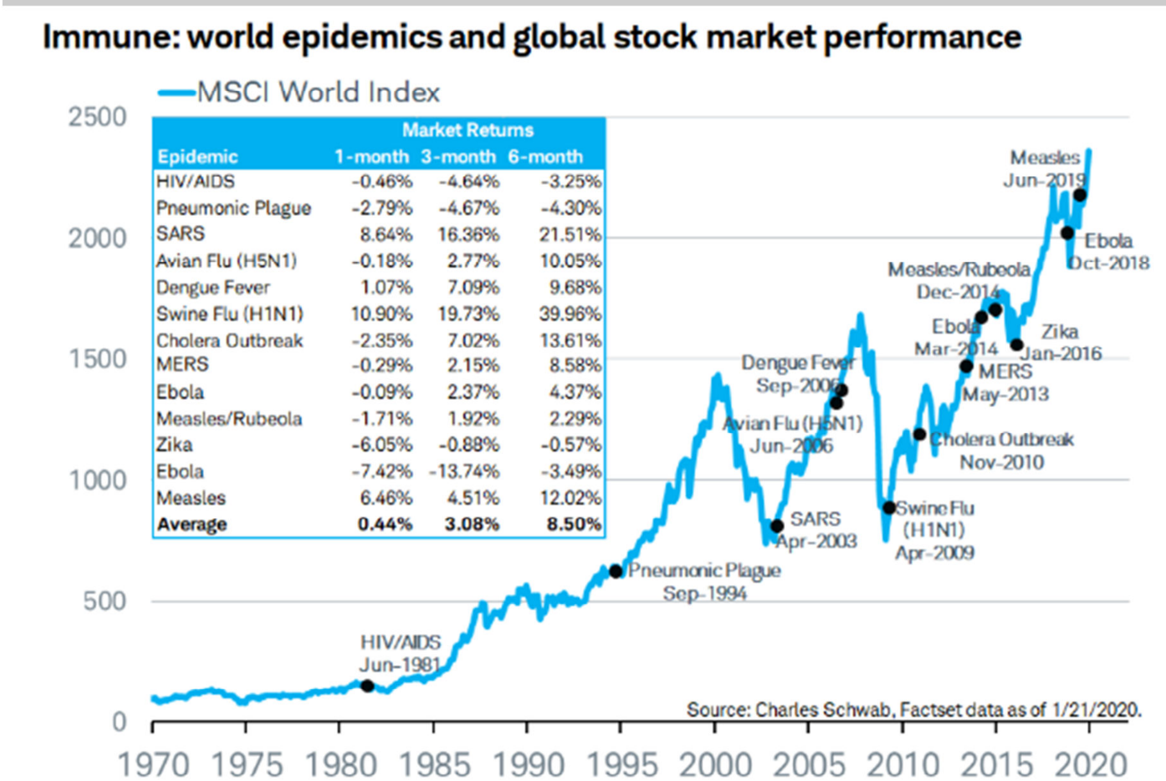
Oil prices slumped to three month lows last week since China is the world's top oil importer. This has prompted OPEC to look at extending current oil output cuts until at least June from March. Soy and canola markets have been noticeably weaker (discussed more below in their sections). In particular, palm oil prices slumped as much as 10% last week helping to bring down canola. Palm oil is used mainly in food courts and by catering companies in China, the second largest palm imported behind India, so reduced consumption is expected over the near to medium term.

Base metals have also taken a hit as manufacturing plants and factories take protracted Lunar New Years breaks while they access the fallout from the virus. Copper has been known to be a leading indicator of the health of the economy and it fell near a four month low last week.

The Stock Market & Epidemics

I want to briefly share what the stock market has done in past epidemics.

Historically, the world markets reaction to outbreaks and quickly spreading diseases is often short lived. After the last 12 epidemics dating back to 1981, the MSCI World Index on average increased 3.08% in 3-months and 8.50% in 6-months (chart below). The severity of the coronavirus will ultimately dictate the market’s reaction. Traders will be watching for market direction with U.S. earnings season on right now. Apple, Tesla and Microsoft, Amazon and Coca-Cola beat earnings expectations while Facebook missed. Overall, with any epidemic, earnings season or other event. you need to be comfortable with your portfolios plan to be unemotional about what is going on in the world**.**



	Market Returns		
Epidemic	1-month	3-month	6-month
HIV/AIDS	-0.46%	-4.64%	-3.25%
Pneumonic Plague	-2.79%	-4.67%	-4.30%
SARS	8.64%	16.36%	21.51%
Avian Flu (H5N1)	-0.18%	2.77%	10.05%
Dengue Fever	1.07%	7.09%	9.68%
Swine Flu (H1N1)	10.90%	19.73%	39.96%
Cholera Outbreak	-2.35%	7.02%	13.61%
MERS	-0.29%	2.15%	8.58%
Ebola	-0.09%	2.37%	4.37%
Measles/Rubeola	-1.71%	1.92%	2.29%
Zika	-6.05%	-0.88%	-0.57%
Ebola	-7.42%	-13.74%	-3.49%
Measles	6.46%	4.51%	12.02%
Average	**0.44%**	**3.08%**	**8.50%**

The MSCI World Index captures large and mid cap representation across 23 Developed Markets countries. With 1,646 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. **Past performance is no guarantee of future results.**

Canola

Since January 10th, March canola futures have dropped $32/ton approximately.

Soybean oil significantly increased in December with palm oil, which kept canola futures fairly steady.

However, palm oil has now turned lower and so has soybean oil (along with the whole soy complex).

Below is a chart that shows you why I watch soybean oil in relation to canola prices.

You can see from the end of December soybean oil (white line) decreased 16.85% and canola (red line) decreased 11% along with it.

The soy complex is going to be important to watch going forward for canola.

Agriculture and Agri-Food Canada (AAFC) estimate 2020 canola production to decline and forecast a 2% decline in planted aces to about 20.5 million.

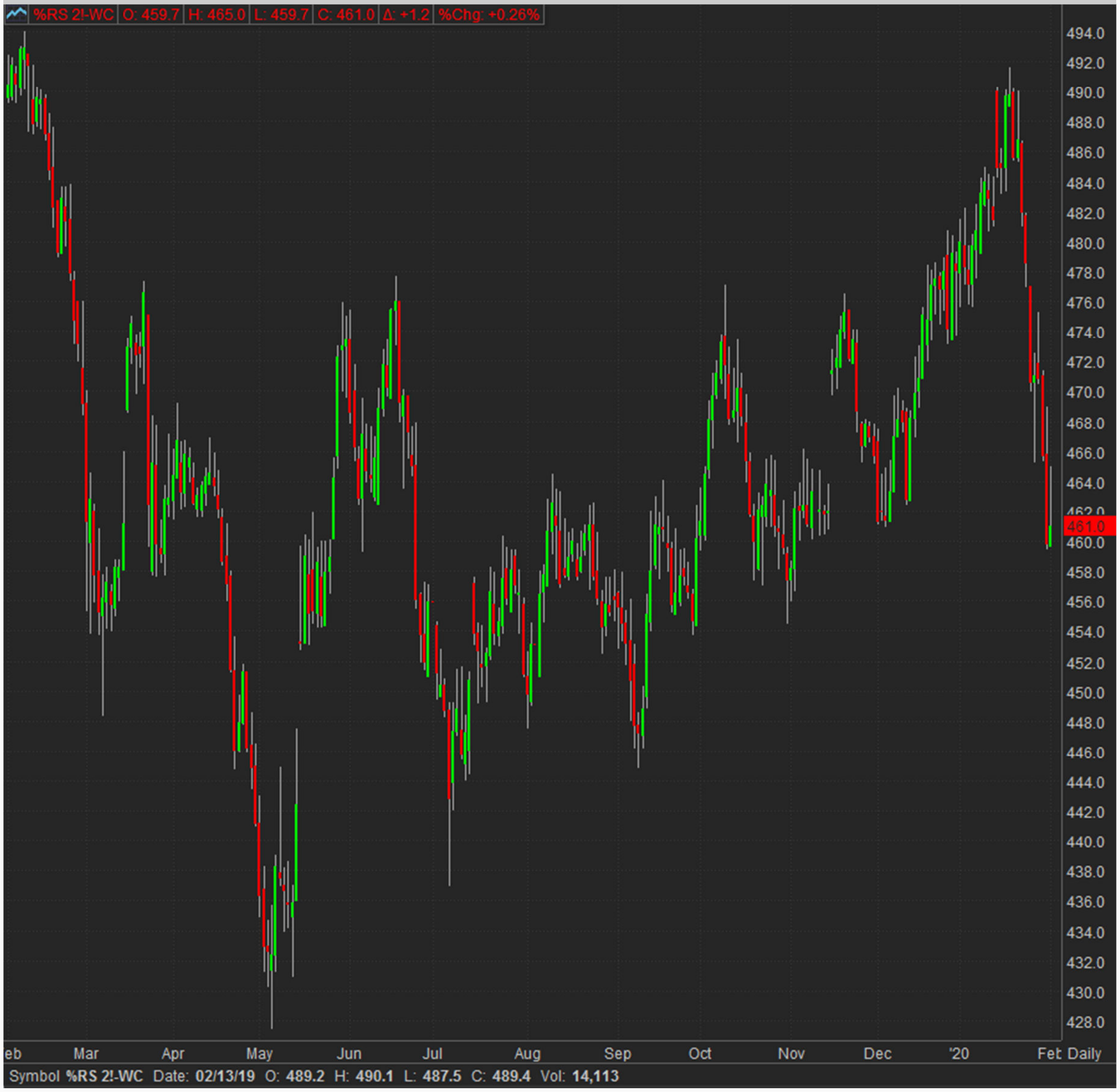
As well, production is to decline to 18.5 million tonnes, which would be the lowest amount in six years.

Ending stocks for 2019/2020 were pegged at 3.5 million tonnes and at 3 million for 2020/21.

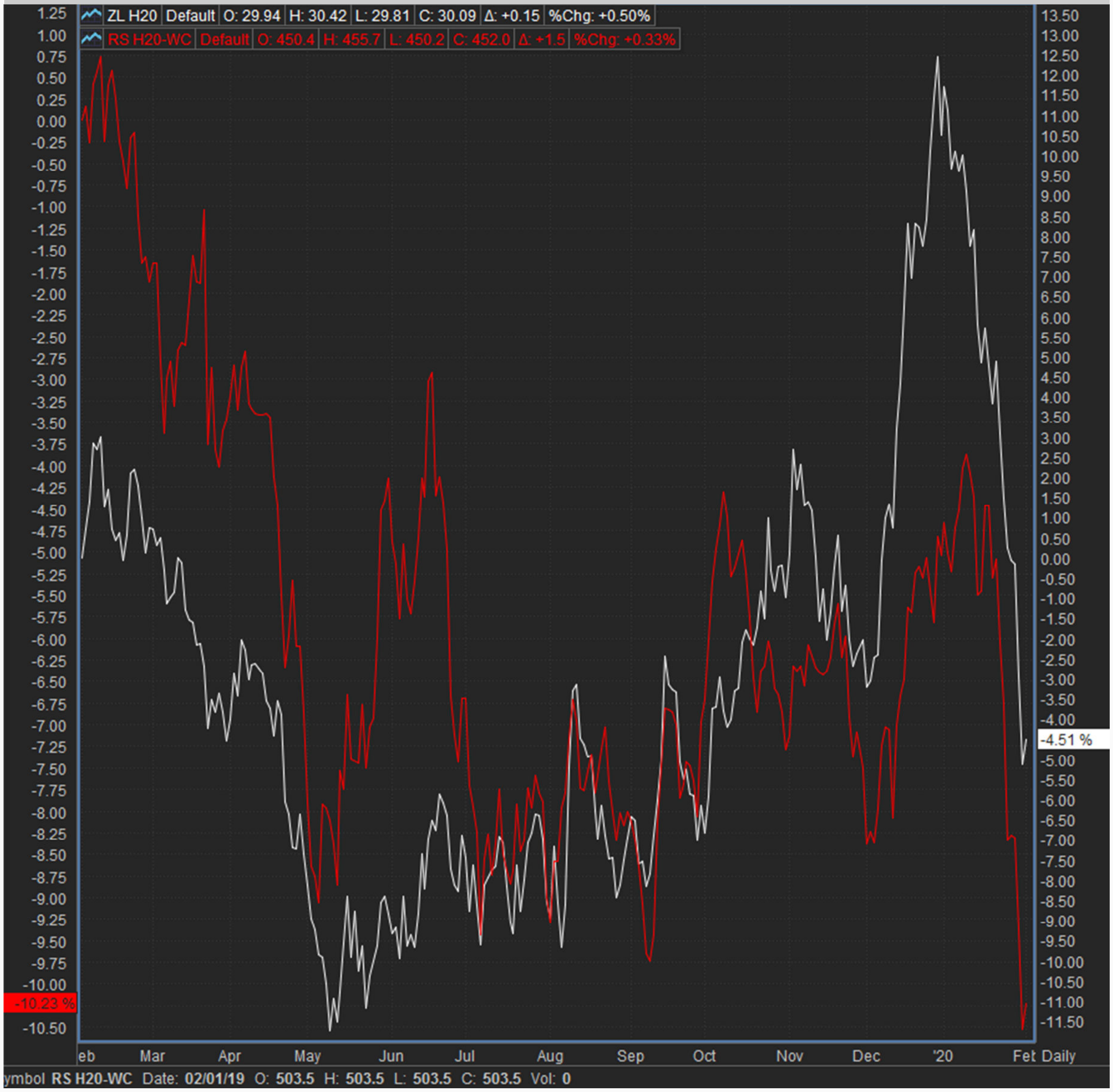
I'm going to be watching for May canola to hold around $460/ton.

The futures are right at support currently.

Canola May Futures - 1 Year



Soybean Oil (White Line) vs Canola (Red Line) March Futures - 1 Year



Wheat

There isn't a direct correlation between a slowdown in the China and wheat demand.

A sharp break in the US dollar helped the market rally nearly 10 cents off of the lows.

Kansas City and Minneapolis wheat have posted new lows on the year last week, but were able to climb back to unchanged levels.

Prices were supported from strong global export demand with reports that Australian near-term supply would reach very low levels by mid-year if they maintain their current export pace.

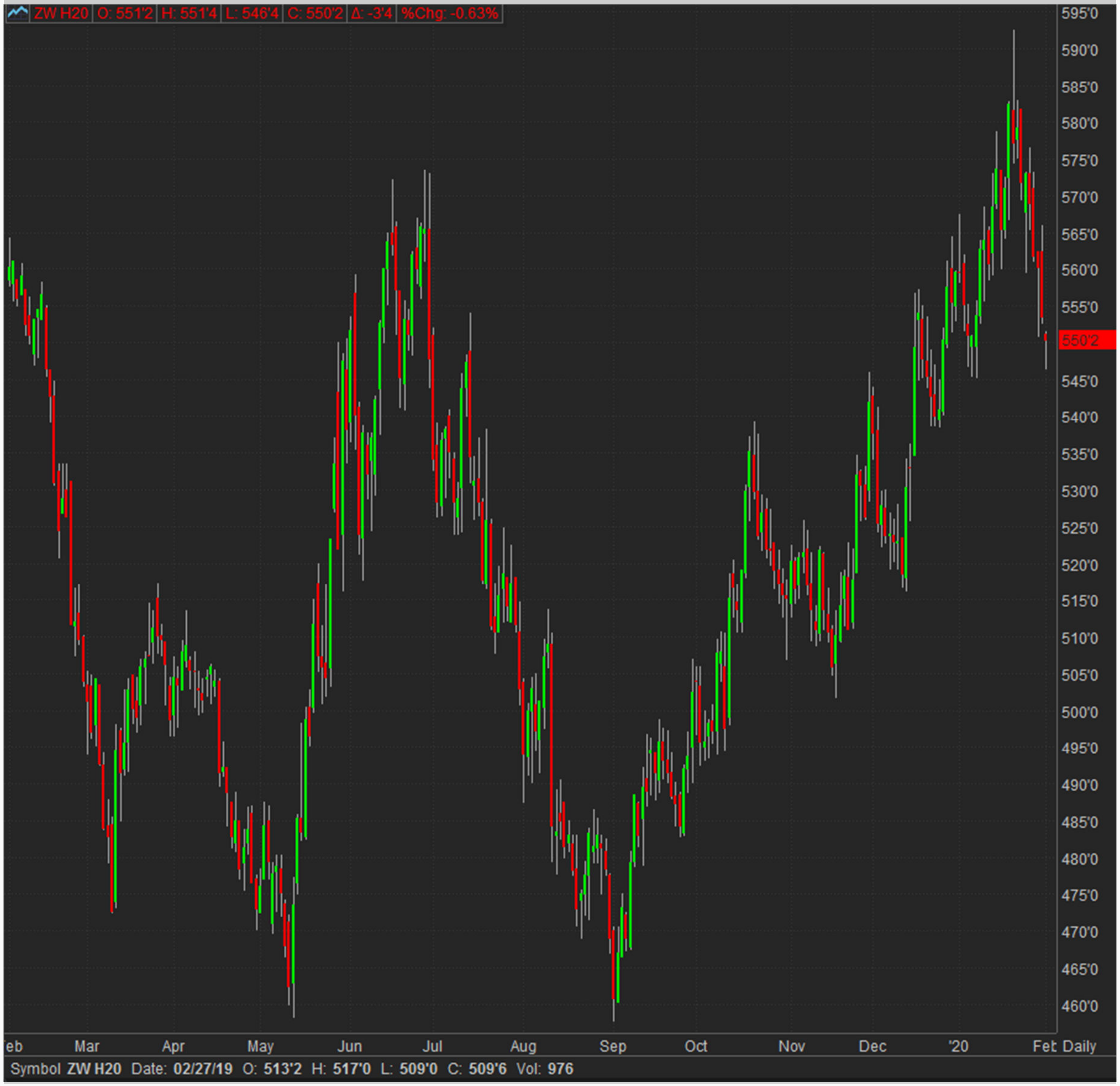
As a result, a negative turnaround in the Dollar after US economic data provided wheat with another source of strength.

The latest data from the CFTC regarding positions as of January 28th had Chicago wheat specs more net long week-to-week, in other words, they were buying thinking the market could go up.

The Commitment of Traders report showed Kansas City wheat spec traders were also net long, but there was net new selling for the first time since Nov 26.

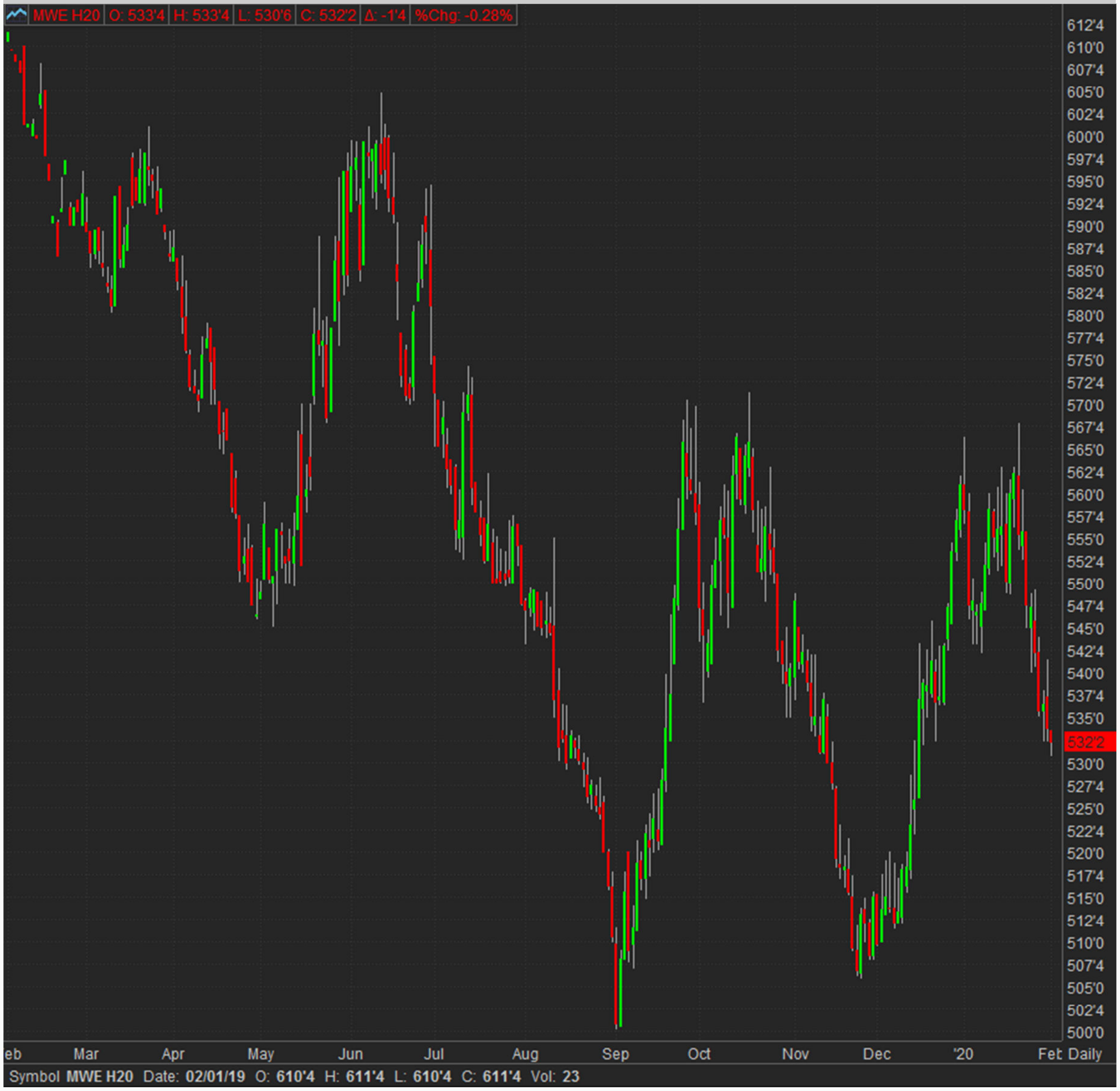
Spring wheat spec traders continued their longest net short holding period on record, which shows they might believe this could be the top.

Chicago Wheat March Futures - 1 Year



Kansas City Wheat March Futures - 1 Year

Minneapolis Wheat March Futures - 1 Year



Soybeans

Last Friday, China reported their imports of U.S. soybeans and they surged in December from a year earlier.

This is positive news after the signing of the Phase 1 Deal.

China brought in 3.09 million tonnes of soybeans from the U.S. in December, 44 times the level a year ago, data from the General Administration of Customs showed.

Friday's data provided a breakdown of China's buying by origin after figures released earlier in January showed it bought 88.51 million tonnes of soybeans overall in 2019, just up from 88.03 million tonnes in 2018.

Soybeans made up more than half of its U.S. agricultural purchases in 2017 before the trade war erupted and are expected to make up a key part of any increased purchases.

For all of 2019, China brought in 16.94 million tonnes of U.S. soybeans, edging up from 16.6 million tonnes in 2018, when shipments nearly halved from the previous year due to the trade dispute.

China usually turns to U.S. soybeans in the fourth quarter of the year when the American harvest dominates the market.

The question is are purchases going to continue at the same level with the coronavirus.

Plenty of traders seem to want to stay on the short side of soybeans with the March futures decreasing 85 cent/bu since the beginning of January.

My thoughts on soybean futures are they are going to be lower until the peak of the coronavirus.

It is hard to think there i much more downside with the current oversold levels, but traders could keep pushing prices lower.

Soybean March Futures - 1 Year

Canadian Dollar

Earlier this month the Bank of Canada kept rates unchanged at 1.75%.

This was expected, however, it were the comments they gave after that sent the Canadian Dollar lower.

Ahead of the meeting traders were pricing in one 0.25% interest rate cut in 2020 in October.

A more negative outlook with a revision to the 2020 and 2021 GDP forecasts are now having traders questions how high the loonie is.

According to Canada overnight index swaps, rates markets are now pricing in a probability of 64% that a 0.25% cut will come in July – two months earlier than expected.

At the start of 2020, rate markets did not have any interest cut priced in, so this has been a drastic change in a few weeks' time.

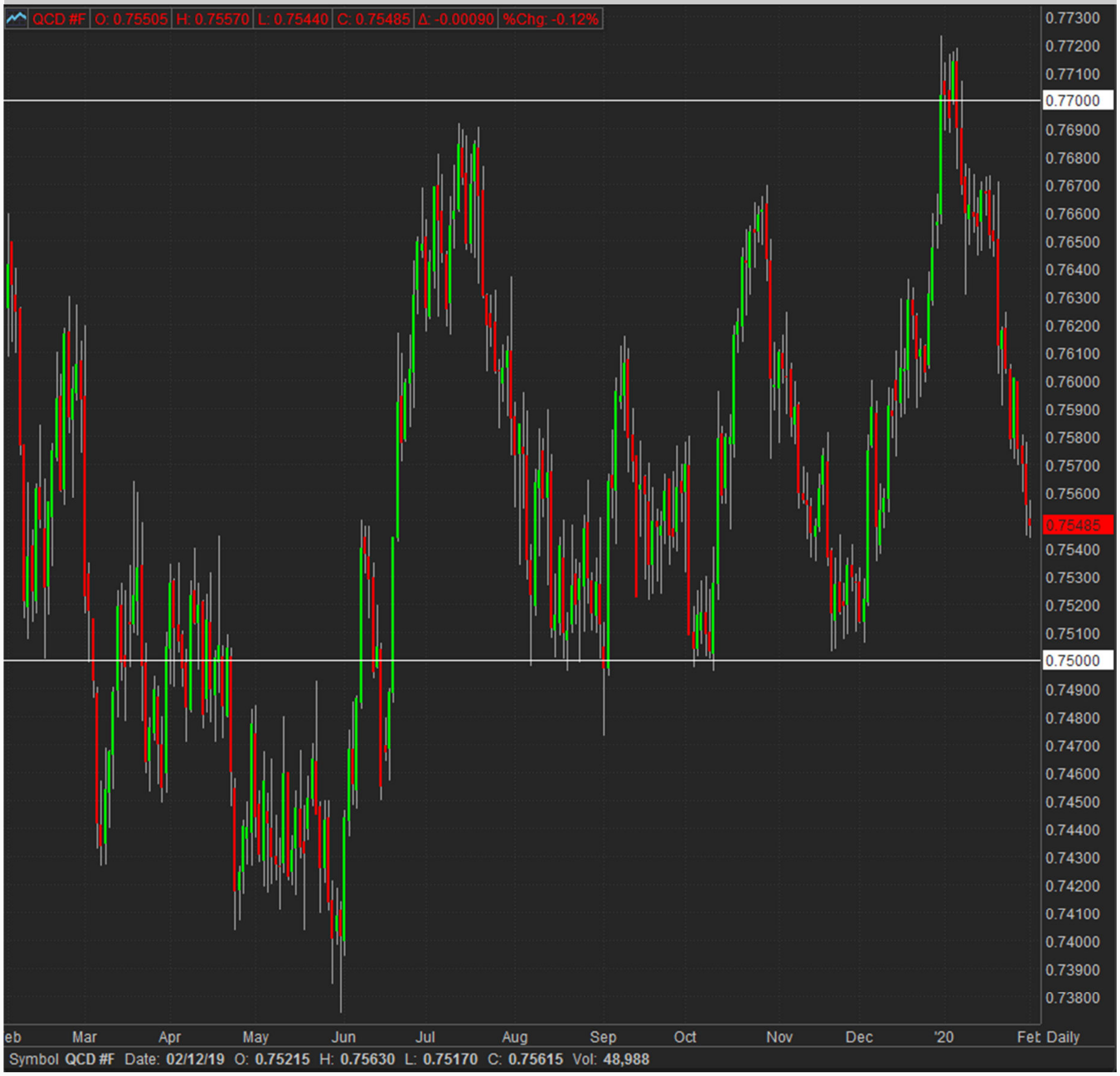
I mentioned to clients that I didn't see the Canadian Dollar staying where it was around 77 cents.

My recommendation was to convert funds if large purchases were going to be made in the U.S.

To help protect clients grain prices, I'm going to be watching to hedge their Canadian Dollar risk closer to 74 cents.

This will depend on how the general markets perform over the coming months.

Canadian Dollar March Futures - 1 Year



Cattle

This month on the nearby contracts feeder cattle declined $8.225/cwt (5.68%) and live cattle declined $7.475/cwt (5.88%).

Technicals are showing the market appears to have put in a short-term low.

Traders see positive packer profit margins, a relatively tight supply flow and a discount to the cash market as reasons to suspect a bounce.

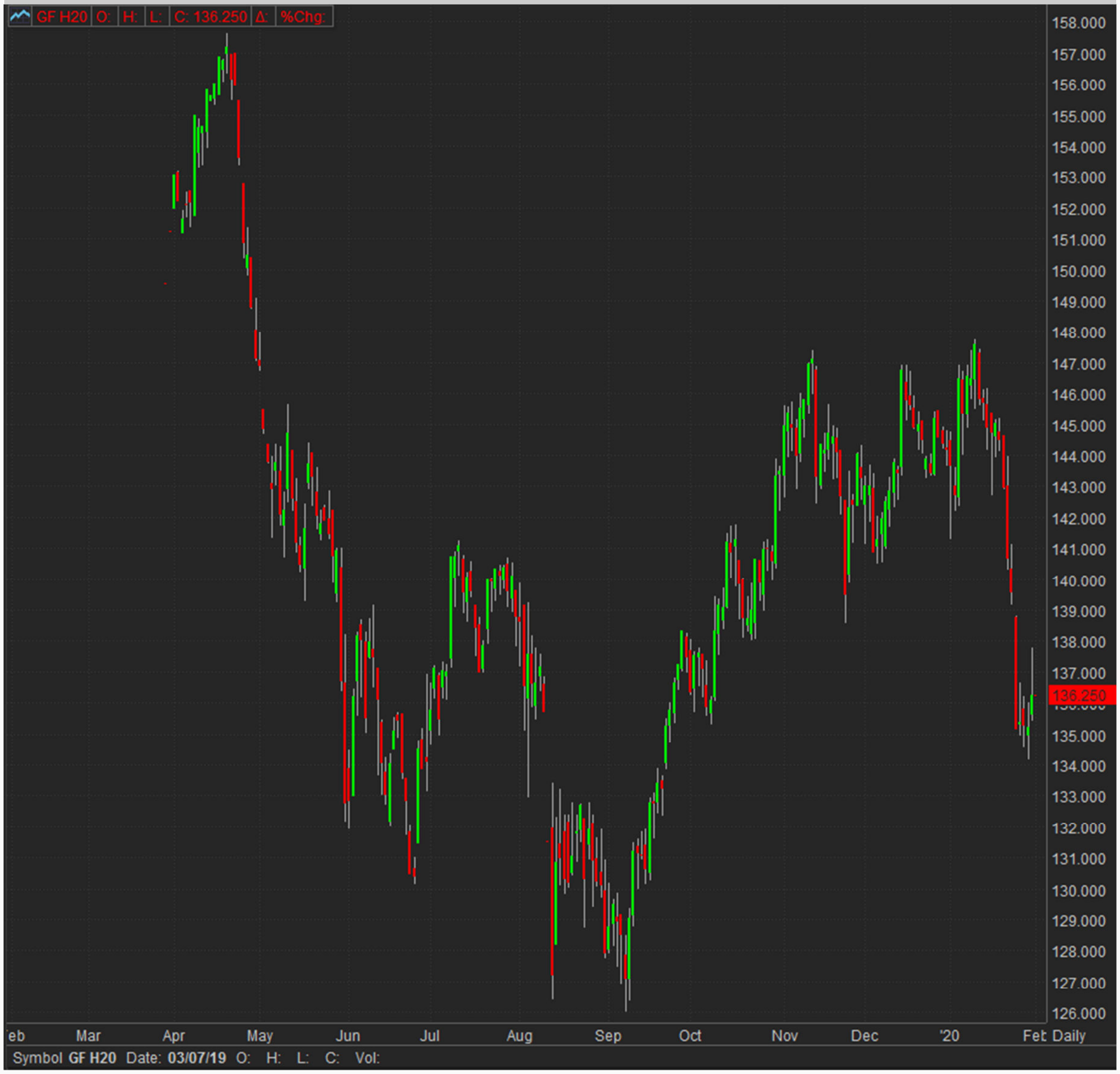
However, it may take a rally in the beef market to see that demand has not been hurt significantly from the coronavirus.

Funds are still holding a large long position so it is difficult to determine when the long liquidation selling could slow.

There might still be more downside.

Overall, the technical action is showing there may be a bounce, but lower trending cash cattle is a negative force and it seems unlikely that funds traders will suddenly being to rebuild their net long positions.

Feeder Cattle March Futures - 1 Year



Live Cattle April Futures - 1 Year